/ C8650-5

DUN'S BUSINESS MONTH

Should Companies Sponsor IRAs?

February 1982 $2.25

Big Labor Faces Reality

Common Market's Growing Strains

Corporate Debt That Doesn't Show

Also Featuring
A Monthly Business Recap

3002 15 19382991 1 W98
EDWARD KIANKA ACQ EDT
CONGRESSIONAL INF SERV INC
7101 WISCONSIN AVENUE
WASHINGTON DC 20014

Feature Departments

ECONOMY

Big Labor Faces Reality 36

With major industries hurting, the unions will settle for less this year while shaping plans to win back their power.

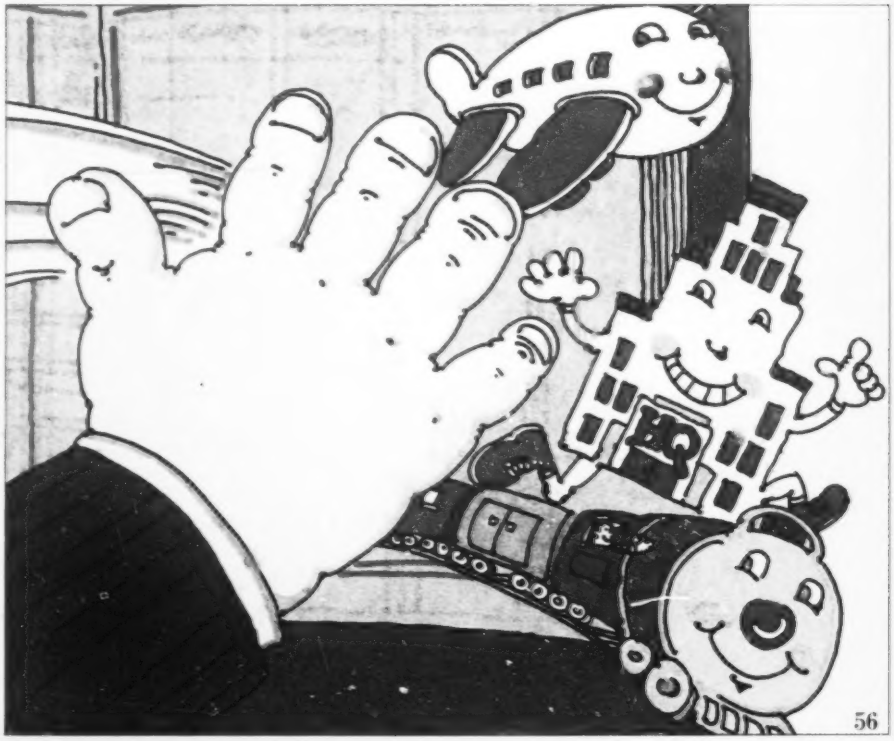
- **Gardner Ackley: We need an incomes policy**

WASHINGTON

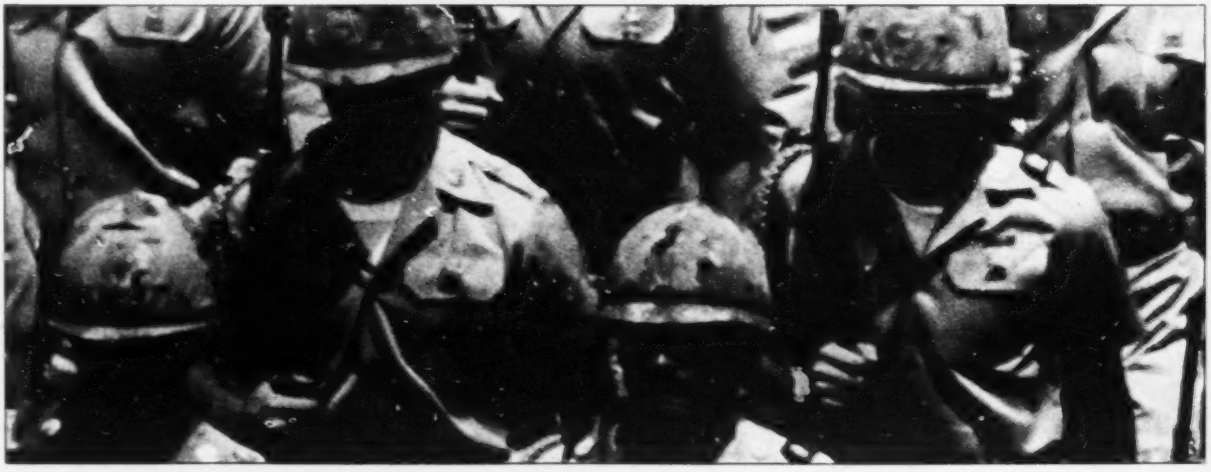
Defense Spending: It's Tough to Cut 48

Given the recession, the Polish crisis and heightened U.S. hawkishness, not much money will be pruned from the Pentagon budget.

- **A National Minerals Policy?**



56



DUN'S BUSINESS MONTH

February 1982, Vol. 119, No. 2

MONEY & MARKETS

New Game in Off-Balance Sheet Financing 56
Clever deals are enabling companies to cut costs and minimize risks.

MANAGEMENT

Latest Corporate Quandary: IRAs 64
Companies differ on how much—or how little—they will help employees use the new tax law.

INTERNATIONAL

Strains on The Common Market 70
At 25, the European Community is beset by problems—but reforms could rekindle prosperity.

INDUSTRIES

The Case for Steel Diversification 74
Proponents argue that diversification provides the capital needed to modernize steel facilities.

- **Battle Over Electric Rates**
- **Whither Silicon Valley?**

MARKETING

How Bud Won The Battle 83
In its beer brawl with Miller, Budweiser has emerged a bigger, stronger brand than ever.

- **How Ads Are Seen**

TECHNOLOGY

Piezoelectricity's New Promise 91
Some researchers see a flood of new products coming from the hoary science of generating electricity from crystals.

BizQuiz 7
Who owns the stores?

Personal Finance 95
- *Inventorying valuables*
- *Best bargains in retailing stocks*
- *Tips for commodities traders*
- *Buying a rent-a-car*

Surveys & Studies 103
Why execs quit

The Forum 105
Needed: A federal prize for the car of the future

The Business Month

COMPANIES

AT&T's bold move 13
Clearing IBM
Merger action

ECONOMY

Recession: More to go? 14
Nervous retailers
Has the Fed dropped monetarism?

WASHINGTON

Reagan kills tax hikes 16
Clean Air compromise
The Soviet sanctions

INTERNATIONAL

Poland's hurting economy 17
Japan's trade promises
Europe's rocket success
British unions thwart guidelines
Multifiber pact renewed
Canada's economic woes

MONEY & MARKETS

Wall Street's bleak outlook 23
Kaufman's gloomy view
Flap over GM deal
Gold decline
Big action in IRAs
Sweating out zinc pennies

INDUSTRIES

Steelmakers finally sue 29
Gas prices going up?
Detroit's sales gimmicks

MANAGEMENT

Harper & Row stockholder battle 30
Vornado's executive perks
Cutting health costs
Mobil wins one

TECHNOLOGY

Texaco's stratified charge engine 31
Pfizer's angina painkiller

COMMUNICATIONS

Big dailies up for sale 31
Gannett's national paper
Fuss over E-COM

MARKETING

Pan Am's surprise agency switch 32
Levi Strauss goes mass market

Loeb prefers Federated because it is most frequently the dominant store in its area. "It is a fashion and trend leader, catering to customers who want the latest fashion first," he says. Under new senior management, Federated has also streamlined unprofitable operations in its supermarkets and catalog sales and is working on improving sales in its big Abraham & Straus store in Brooklyn, New York. He estimates that earnings per share in the latest fiscal year (ending January 31) rose to $5.05 from 1980's $4.40 and forecasts another jump to $5.85 this year.

Loeb expects Melville Corp., which he has been recommending for a long time, to continue as an outstanding specialty chain. "And there is less risk in the stock because of the quality of management and because of its diversification," he says. Melville now sells drugs, toys and men's and women's apparel besides its famous Tom McCan shoes and discount shoes. Loeb expected its fourth-quarter sales to sag because of sluggish shoe business. But the company's recently acquired Kay-Bee toy retailer did better than expected, and other divisions were surprisingly strong after Christmas. Consequently, he estimates 1981 results at $5 a share, up from $4.54 in 1980, and expects $6 a share this year.

Drugstore chains Revco and Rite Aid operate in different geographic areas but with similar marketing philosophies. For example, both have small stores and are discount operations, which Loeb believes make for more efficient management and steadier growth. He expects Revco's earnings to climb to $2.45 a share this year from $2.21 in fiscal 1981 (ended May 31) and Rite Aid's to rise to $3.45 a share from an estimated $2.90 for the fiscal year ending this month. Both stocks were recently selling at around ten times earnings.

In the specialty store group, Tandy now has more than 6,000 Radio Shack stores selling small computers and consumer electronic products in the U.S., plus more than 2,000 foreign outlets. Loeb sees no letup in its phenomenal growth, with new revenues coming from new products and expanded distribution. For example, Tandy's recent acquisition of the Memorex label, he notes, enables the company to take the products it manufactures for its own stores, repackage them under the Memorex brand name and sell them through its competitors' stores. Tandy earned $1.65 a share in fiscal 1981 (ended June 30) and should improve its results to $2.20-to-$2.30 this year, Loeb says.

Similarly, the almost $800-million-sales Toys "Я" Us should continue its dynamic growth pace. Most of the chain's 131 stores are laid out like warehouses, which Loeb believes gives it unique marketing and merchandising advantages. It can offer the largest line of products and buy early. It also has a sophisticated inventory control system that forecasts which items will be the hottest sellers in the Christmas selling season. Now the largest discount toy retailer, the company will start selling personal computers this year. Consequently, Loeb recently raised his profits estimates. It earned an estimated $1.85 a share for the fiscal year ending January 31, and Loeb expects earnings to rise 25% a year through 1985. —A.H.

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

Investment	(12/31/81) Recent Price	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$15.52/share	$ 9,725	$ 9,479
per cent change		−2.7%	−5.2%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$86.69	$ 9,553.00	$ 8,813.00
ACCUMULATED INCOME		$ 108.00	$ 995.00
TOTAL		$ 9,661.00	$ 9,808.00
per cent change		−3.4%	−1.9%
Money Market Fund	11.91%	$10,099.00	$11,258.00
per cent change		+1.0%	+12.6%
Gold (Krugerrands)	$418.00/oz.	$ 9,764.00	$ 6,763.00
per cent change		−2.4%	−32.4%
House (new single family)	$88,700	$ 84,500	$ 90,100
per cent change		+4.9%	−1.5%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report of Holliston, Mass. 01746; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

An Expert's Tips For Commodity Speculators

Victor Niederhoffer, the founder and chairman of merger consulting firm Niederhoffer, Cross and Zeckhauser, is also well known for his mathematical system predicting the price behavior of stocks. In 1979, Niederhoffer decided to apply his market expertise to speculating in commodities. Setting up NCZ Commodities with $340,000, he has since parlayed that investment into almost $6 million.

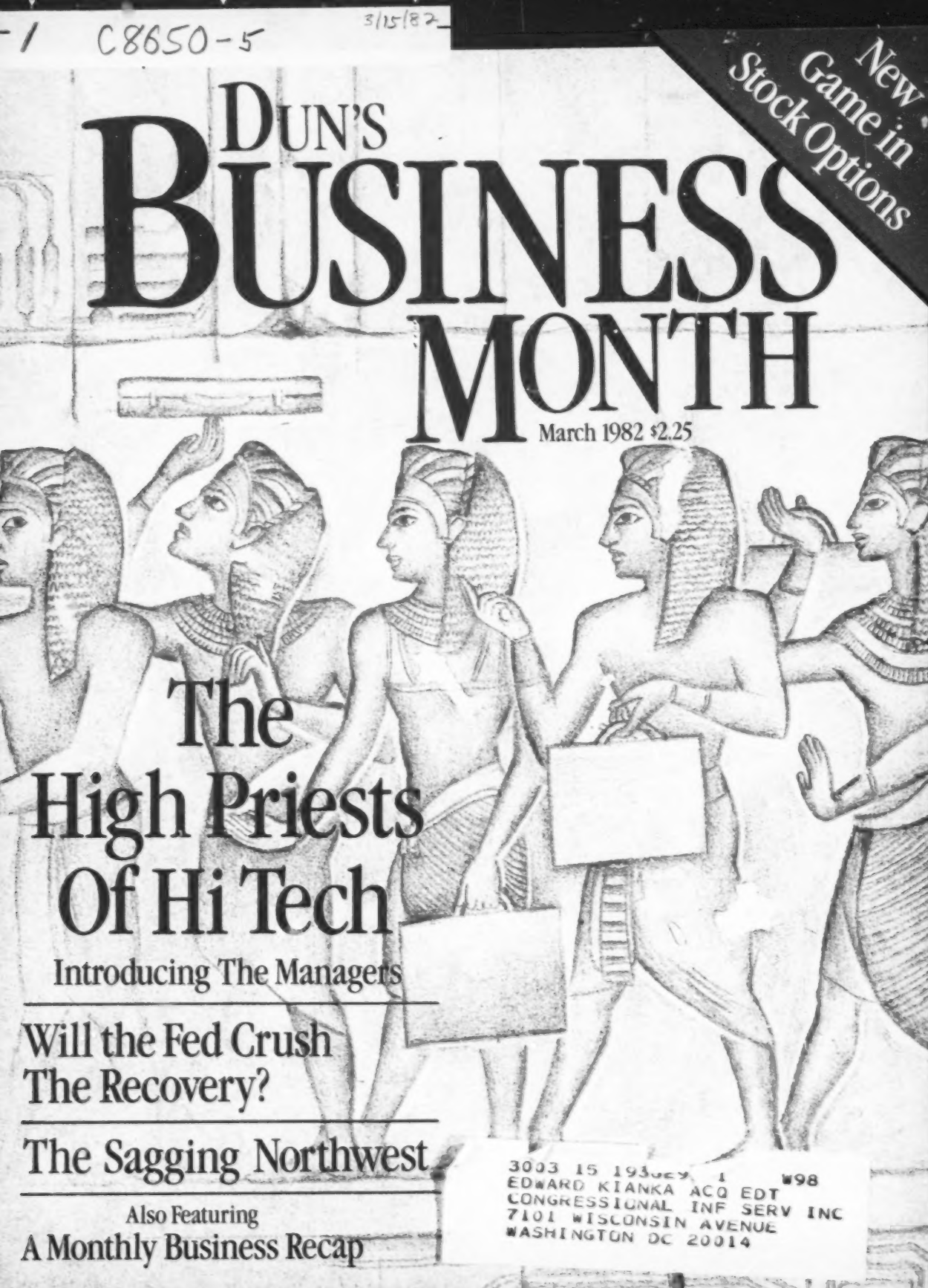
The Niederhoffer system is based on the conviction that all commodity prices around the world are interrelated and have a predictable impact on

-1 C8650-5 3/15/82

New Game in Stock Options

DUN'S BUSINESS MONTH

March 1982 $2.25



The High Priests Of Hi Tech

Introducing The Managers

Will the Fed Crush The Recovery?

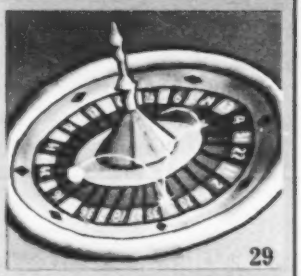
The Sagging Northwest

Also Featuring

A Monthly Business Recap

3003 15 193[illegible] 1 W98
EDWARD KIANKA ACQ EDT
CONGRESSIONAL INF SERV INC
7101 WISCONSIN AVENUE
WASHINGTON DC 20014

The Business Month



29

WASHINGTON

Budget compromise? 21
Shifting priorities

CITIES & STATES

"New Federalism" foes 22

ECONOMY

Conflicting indicators 22
Wary consumers

LABOR

Ford-UAW pact 23
Saving jobs at A&P

MONEY & MARKETS

Interest rates up again 24
Lagging liquidity
Bullish market views
Interest or vacation?
New way to borrow
Zero-coupon overseas bonds
Thaw in orange juice futures

INTERNATIONAL

Schmidt's struggles 30
More for French stockholders
Japanese trade imbroglio
Mexico's economic muddle
British trade worries
Zimbabwe's fretting firms
De Lorean's troubles

COMPANIES

Laker's debacle 32
Schering-Plough vs. FDA
Chrysler's tank sale
Kaiser, Cannon takeovers
Merger scorecard
ProGroup's advice: Sell

INDUSTRIES

Poor profits 36
Airlines price war reprise
Nuclear setbacks
Sears' new market
Aetna's health plan
Condo auction in Florida
Hard times in Las Vegas

MANAGEMENT

Harvester vs. UAW 42
Brunswick's protection plan for executives
Pushing PACs
Flexible pay lobby

TECHNOLOGY

Kodak's disk cameras 43
Space shuttle for sale?

COMMUNICATIONS

FCC nixes RCA auction 44

MARKETING

Coke's new theme 44

Feature Departments

THE MANAGERS

The High Priests Of Hi Tech 47

Spurred by unorthodox CEOs, six companies are carrying the technology torch into the 1980s.

WASHINGTON

Commerce's Corporate Cowboy 60

Secretary Malcolm Baldrige, who rides with Reagan, is emerging as a top hand in economic policymaking.

ECONOMY

Will the Fed Crush the Recovery? 64

Its monetary policies could stifle growth. But experts say that with lower inflation there will be enough money to fuel recovery.

- **Walter E. Hoadley: Don't forget foreign markets.**

COMPANIES

The Myth of AT&T vs. IBM 72

Ma Bell may well win big shares of new markets, an expert says, but hardly at IBM's expense.

MANAGEMENT

Putting Retirees To Work 80

Many companies are discovering the benefits of hiring pensioners for full- or part-time jobs.

- **New Game In Stock Options**

INTERNATIONAL

Recession In Eastern Europe 88

Only East Germany seems to be weathering the problems that have knocked the Soviet-bloc economies off course.

93

MARKETING

Robot-Coupe vs. Cuisinart 93

In the great food processor fight, the French underdog is trying to convince Americans that it makes a better machine.

DUN'S BUSINESS MONTH

March 1982, Vol. 119, No. 3

CITIES & STATES

The Pacific Northwest Takes a Beating 97
A slumping forest products industry and other woes have sent the region's unemployment rate soaring.
- **San Diego's Trolley Song**

MONEY & MARKETS

International Banking: The Battle Heats Up 100
Freed from regulatory restrictions, American banks are going after the huge Eurocurrency market.

Letters 9
CEO tenure

BizQuiz 10
Federal Reserve cities

Surveys & Studies 125
Why decisions die

Personal Finance 127
- *What triggers an IRS audit?*
- *Making the most of an IRA*
- *Telephone stocks for a new era*

rived from earned income. If, for instance, you have an unemployed, widowed mother whose only income is from investments, she can lend you $20,000 interest-free. In exchange, you pay her $2,000 a year to act as your financial adviser or for performing some other duties, giving her earned income to set up an IRA.

Those between the ages of 59½ and 70½ enjoy an added IRA advantage. They can still deduct the $2,000 a year from taxable income, and they can also withdraw money at no penalty, paying taxes only on what they withdraw.

You also can borrow to set up an IRA and deduct the interest expense. Treasury regulations do not allow you to deduct interest expense when you borrow to invest in tax-free securities. But an IRA is not tax-free, just tax-deferred. So, says Donoghue, "if you must, borrow to fund your IRA."

And finally, you may fund your IRA until the time you file your taxes. If you want more time after April 15, file for an extension. —M.S.L.

(continued on page 131)

INVESTMENT UPDATE

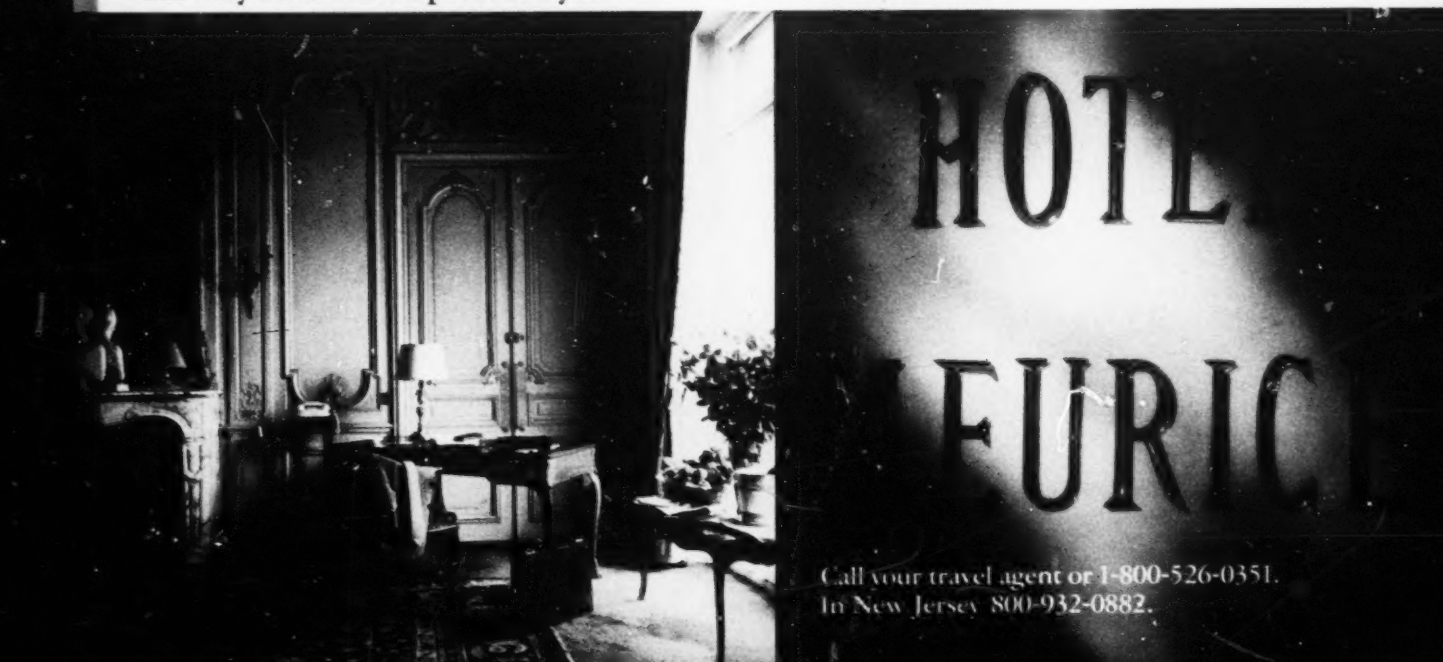
Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

Investment	(1/29/82) Recent Price	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$15.29/share	$ 9,851	$ 9,772
per cent change		−.1%	−.2%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$85.00	$ 9,805	$ 8,831
ACCUMULATED INCOME		$ 112	$ 1,220
TOTAL		$ 9,917	$10,051
per cent change		−.8%	+.5%
Money Market Fund	12.05%	$10,041	$11,274
per cent change		+.4%	+12.7%
Gold (Krugerrands)	$404/oz.	$ 9,656	$ 7,434
per cent change		−3.4%	−25.7%
Existing House	$69,400	$70,000	$66,700
per cent change		−.8%	+.4%
New House	$100,600	$88,700	$87,000
per cent change		+13.4%	+15.6%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

If your room seems fit for a king...
one may have indeed preceded you.

A hotel is a place to stay.
228 Rue de Rivoli, Paris, is a place
to remember.

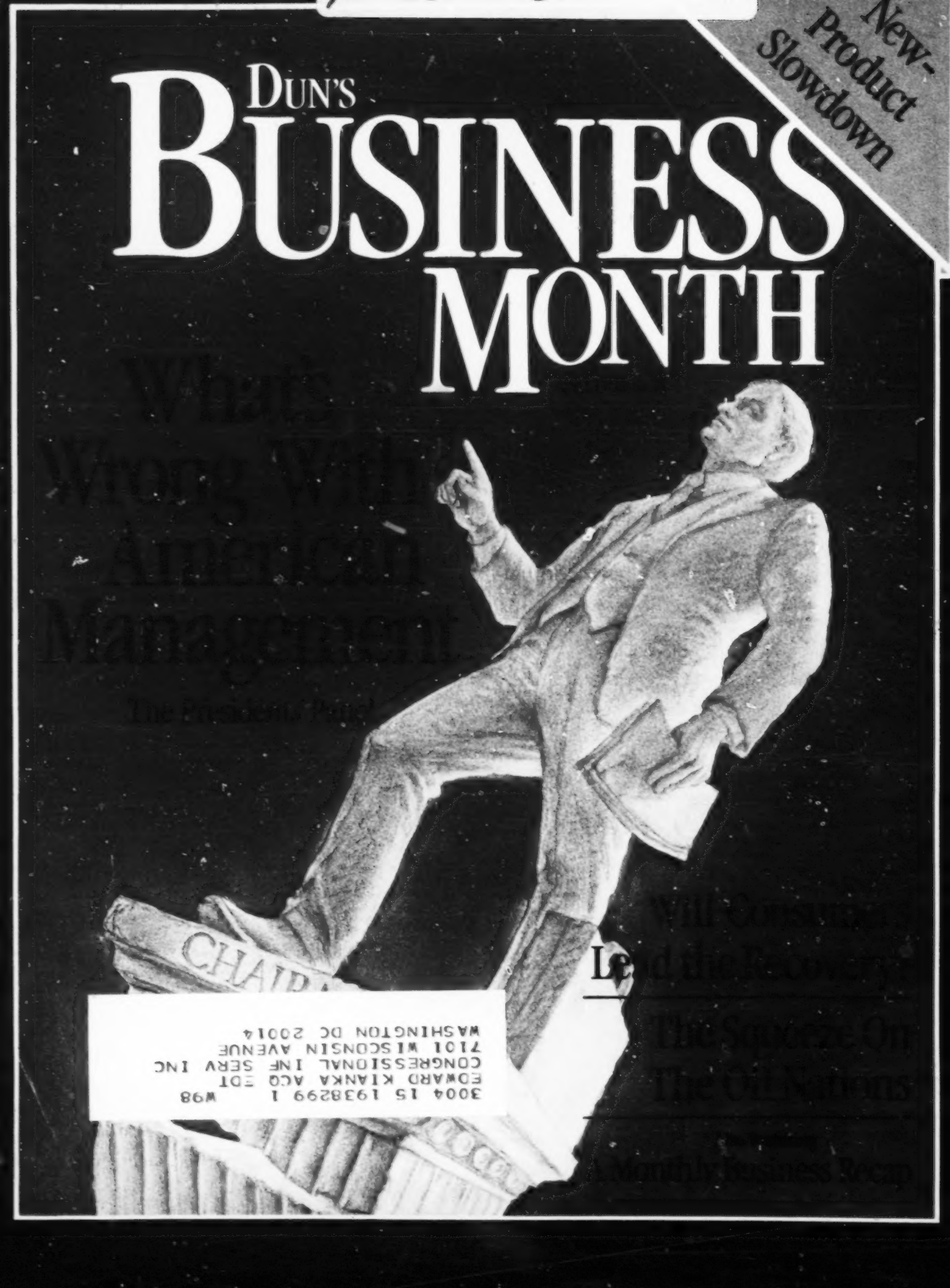


DUN'S
BUSINESS MONTH

New-Product Slowdown

What's Wrong With American Management

The President's Panel



Will Corporate Le

The Squeeze On

The Oil Giants

3004 15 19382991 W98
EDWARD KIANKA ACQ EDT
CONGRESSIONAL INF SERV INC
7101 WISCONSIN AVENUE
WASHINGTON DC 20014

Feature Departments

MANAGEMENT

What's Wrong With Management 48
(Cover Story)
Plenty, says the Presidents' Panel, notably too much stress on short-term goals and poor labor relations.

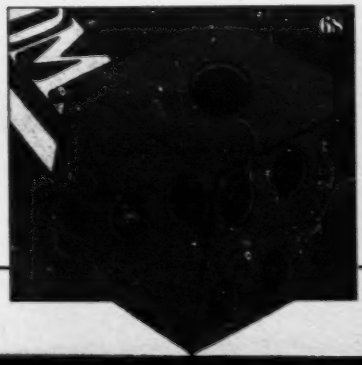
ECONOMY

Will Consumers Come Through? 56
They helped pull the economy through the last slump. But this time consumers may not be able to afford a shopping spree.

- **Arnold R. Weber: Are the give-back labor pacts only temporary?** 65

MONEY & MARKETS

Venture Capital: The Game Gets Riskier 68
Veteran venturists worry that too many novices are getting into bad



DUN'S BUSINESS MONTH

April 1982, Vol. 119, No. 4

deals and paying too much for their investments.

- **The Number One money fund**

COMPANIES

Making It Big With Toys 77
Already the nation's top toy retailer, Toys "R" Us is after an even bigger share of the market.

INTERNATIONAL

Squeeze on the Oil Nations 80
With prices tumbling along with demand, revenue cutbacks are forcing them to reexamine expensive economic development programs.

CITIES & STATES

Here Comes The Knoxville Fair 84
Despite everything, the energy-keyed exposition expects to be the most financially successful U.S. world's fair on record.

INDUSTRIES

Europe's 'Skyway Robbery' 88
A court battle looms over legalized price fixing that makes Common Market air fares three times greater than those in the U.S.

- **U.S. Airlines: The red ink flows**
- **Saving the S&Ls**

MARKETING

Tough Times For New Products 99
Slowing population growth and over-segmented markets are hampering the packaged goods producers.

Letters 7
Gold standard?

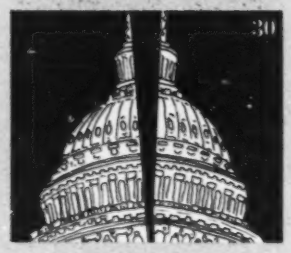
The Managers 106
A gallery of the month's newsmaking executives

Surveys & Studies 111
Best business sites

Personal Finance 115
- *Ins and outs of foreign investing*
- *King of the low P/E stocks*

Forum 121
New ball game in employee relations

The Business Month



ECONOMY

Conflict at the CEA 29
Soaring bankruptcies
Some good news

WASHINGTON

Budget battle heats up 30
Business wavers on Reagonomics

LABOR

Wage gains slow 31

INTERNATIONAL

Recession hits Japan 32
European monetary conflicts
Botha's move
China cuts red tape
LDCs in trouble
Soviet-Iran deal

COMPANIES

Brunswick aftermath 39
Setback for Levi Strauss
Hewlett-Packard's first
GM-Toyota joint venture
End of Marathon battle

MONEY & MARKETS

Impact of shelf-stock registration 40
On and off bond rally
Stock market hopes
MasterCard offers cash management service
Pension profits
New tax-exempt wrinkle

TECHNOLOGY

Branding diamonds 44
IBM to sell robot

MARKETING

J. Walter Thompson's barter scandal 44
7UP's controversial ads
A juice for dogs
IXO's tiny terminal

INDUSTRIES

More regional brokers snapped up 45
Electronics industry plans R&D coop

MANAGEMENT

Texaco wins on disclosure 46
New compensation device

CITIES & STATES

Akron: End of an era 46

Ins and Outs Of Foreign Investing

For decades, Americans exhibited what might be called investment myopia, putting their money almost solely into U.S. stocks and bonds while internationally minded foreigners diversified their assets geographically. In recent years, however, foreign buying by Americans—spurred by high-performing overseas stock markets and a weak dollar—has increased dramatically.

To be sure, the strengthening dollar caused foreign activity to taper off last year, and right now stock markets around the world are generally depressed. But Jimmy H.C. Wang, a specialist in Japanese stocks at Bache Halsey Stuart Shields, anticipates market recovery within six months and sees good investment opportunities in Japan, Switzerland, West Germany, the United Kingdom, Singapore and Malaysia.

Samuel D. Isaly, international specialist at Merrill Lynch, offers four key points to look for when investing overseas: a good outlook for real economic growth; a currency that is neutral or strong versus the U.S. dollar; companies that have strong fundamentals; and, sometimes, industries that are unavailable in U.S. markets, such as the pure consumer electronics companies in Japan and rubber plantations in Malaysia.

There are several ways to invest overseas. Some of the larger foreign companies, such as Sony Corp. and Matsushita Electric Industrial Co., are traded on the New York Stock Exchange, and many others are traded on the over-the-counter market. To facilitate trading, the stocks are sold via American Depository Receipts, or ADRs, which are simply certificates used in place of the securities. Many investors like ADRs, which can be bought through any brokerage firm, because they can take physical possession of the shares. But brokers warn that some over-the-counter ADRs are not very liquid and trade on wide spreads, which make them more expensive.

Individuals can also invest in foreign securities through mutual funds, such as T. Rowe Price International, Scudder International, Merrill Lynch Pacific, GT Pacific and Transatlantic. Two of the biggest closed-end funds for foreign trading are Japan Fund and Mexico Fund, both traded on the New York Stock Exchange.

Only a few U.S. brokerage firms trade stocks directly on foreign exchanges for their clients. Merrill Lynch and Drexel Burnham Lambert are two of the best known, and Bache has just unveiled a program to buy stocks on the Tokyo exchange—the most popular exchange outside the U.S. In addition, a number of foreign brokerage firms have offices here to serve American clients.

While buying shares on overseas exchanges is similar to buying U.S. shares, there are additional considerations. Time differences often delay execution of a trade; the local exchange may impose a charge in addition to the brokerage firm's normal commission; some exchanges do not permit short sales or margin trading; and most countries impose a withholding tax on dividends, usually 15%. But they do not impose capital gains taxes,

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

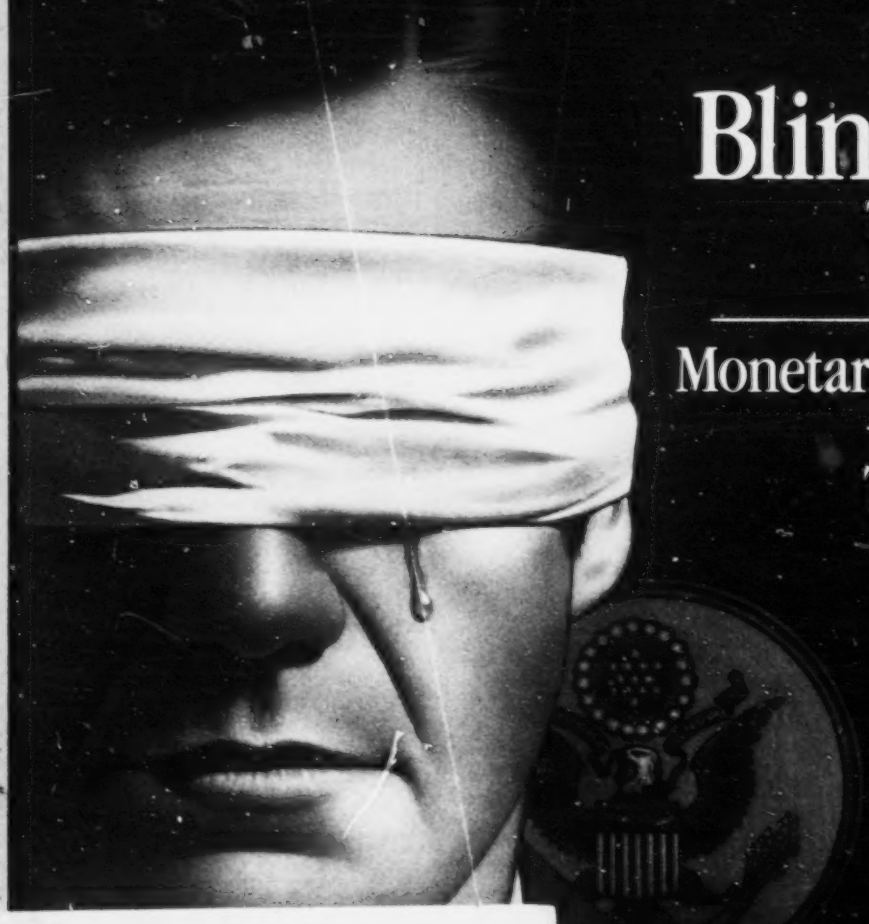
Investment	(2/26/82) Recent Price	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$14.51/share	$ 9,490	$ 9,081
per cent change		−5.1%	−9.2%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$85.59	$10,069	$ 9,399
ACCUMULATED INCOME		$ 115	$ 1,075
TOTAL		$10,184	$10,474
per cent change		+1.8%	+4.7%
Money Market Fund	13.17%	$10,109	$11,399
per cent change		+1.1%	+14.0%
Gold (Krugerrands)	$379/oz.	$ 9,380	$ 7,273
per cent change		−6.2%	−27.3%
Existing House	$71,700	$69,400	$69,600
per cent change		−3.3%	−3.0%
New House	$96,600	$100,600	$90,300
per cent change		−4.0%	+7.0%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

Can You Fire A Manager?

DUN'S BUSINESS MONTH

May 1982 $2.25



Blind Trusts:
The Personal Cost Of Public Service

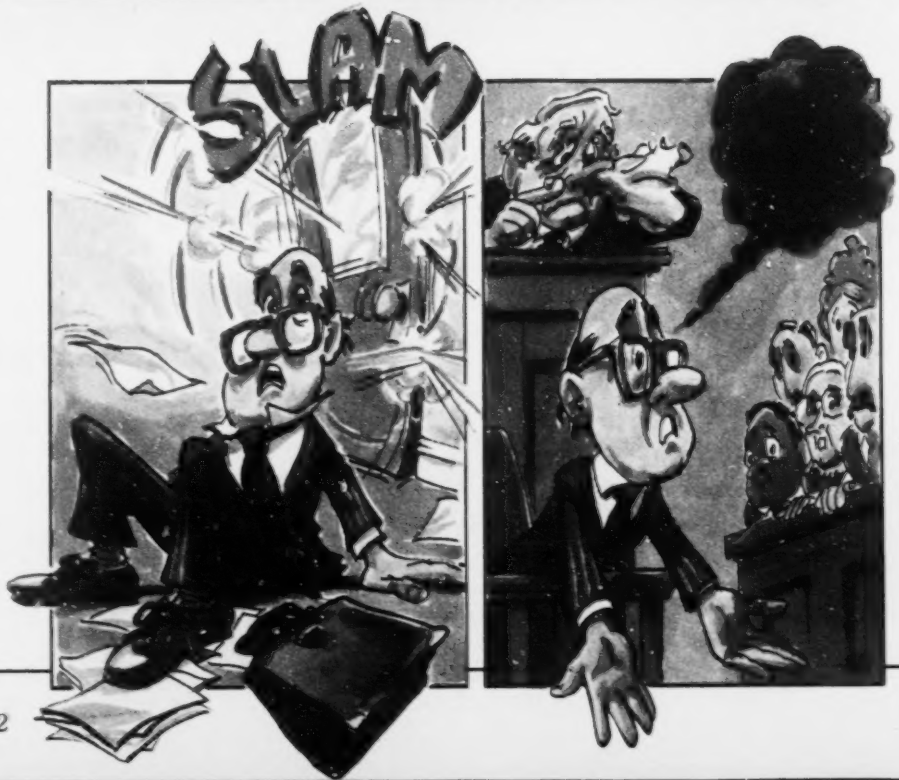
Monetarism Under Siege

The Next Step in Credit Cards

Also Featuring
A Monthly Business Recap

3005 15 19382991 1 W98
EDWARD KIANKA ACQ EDT
CONGRESSIONAL INF SERV INC
7101 WISCONSIN AVENUE
WASHINGTON DC 20014

Feature Departments



ECONOMY

Monetarism Under Fire 34

Critics score the Fed's monetarist policies for creating economic havoc. But Milton Friedman claims that his pet theory hasn't been allowed to work.

- **Gardner Ackley: No time to cut taxes.**

MONEY & MARKETS

They Put Their Trust in Blind Trusts 42

(Cover Story)

Avoiding conflict-of-interest problems can cost government appointees a bundle—financially and emotionally.

WASHINGTON

The Bankruptcy Explosion 52

In the face of soaring personal filings and abuses, creditors are

DUN'S BUSINESS MONTH

May 1982, Vol. 119, No. 5

clamoring for a tighter law.

- **Curbing federal loan programs**

MANAGEMENT

Can Managers Be Fired? 60
Terminations are getting tougher now that courts are more sympathetic to "unjust dismissal" suits.

COMPANIES

Creating a Climate for Productivity 69
A multifaceted program aimed at responding to employees' needs is meeting with success at Control Data.

INDUSTRIES

Turmoil In Trucking 75
After two years of post-deregulation competition, some truckers have already gone under and more are expected to fold.

MARKETING

Getting Consumers In Focus 78
To learn more about what motivates consumers, many companies are huddling with them in productive brain-storming sessions.

INTERNATIONAL

South America's Sagging Economy 83
The Falkland Islands crisis cannot obscure the fact that Argentina—and the rest of the continent—has plenty of other problems.

TECHNOLOGY

Get Ready for The 'Smart Card' 88
The computerized plastic card is here. But whether it heralds the "cashless society" remains to be seen.

Letters 6
Rehiring retirees

The Managers 92
A gallery of the month's newsmaking executives

BizQuiz 105
Know your newspaper slogans

Surveys & Studies 111
Workers' pay gripes

Personal Finance 113
- *Child—and income—shelters*
- *Asset-value bargains*
- *Lights, camera, resumé!*

The Business Month

ECONOMY

Good news—and bad 11

WASHINGTON

Budget compromise? 11
Deficit dip
Fading New Federalism
Congressional perks

INTERNATIONAL

French economic ennui 13
Britain pushes privatizing
Spain's tunnel vision
Nigeria's petro problems
Oxy-China deal

MONEY & MARKETS

New instruments 21
Vaulting volume
Interstate banking
Hurting thrifts

13

12

COMPANIES

AM files Chapter XI 22
AT&T's stalled settlement
GM's steel shock
Batus bags Marshall Field
Boeing's latest setback
Roundtable's empty place
P&G's Rely verdict

INDUSTRIES

Moody's cuts bank ratings 26
Beer battle
Pet insurance
Instant mail

MANAGEMENT

Allied's option plan 29
Loans to executives
PACs approved
Lock-up options allowed
A&P's pension deal

TECHNOLOGY

GE's automation link 30

MARKETING

Madison Ave. mergers 30

COMMUNICATIONS

Transatlantic teleconference 30
Dow Radio's new network

They Put Their Trust In Blind Trusts

"I heard that Blumenthal lost a bundle," says a well-known investment adviser.

"Simon lost $6 million," whispers a Washington official.

Translated, those rumors mean that former Treasury Secretaries W. Michael Blumenthal (under President Carter) and William E. Simon (under President Ford) took financial baths when they put their assets into blind trusts while on government service.

"It cost me plenty, more than a million," Blumenthal says. The losses stemmed from the costs of selling Bendix stock, taxes and "overly conservative" management of his blind trust, Blumenthal explains. While Simon says that the story about how much he lost is "not true," he admits, "I only lost a million." And he blames the economic situation at the time. "Anybody who managed money in that period lost money. Anybody!" he says.

Accurate or not, tales of financial disaster abound whenever the subject

Risk of loss + disclosure

is blind trusts, which certain government appointees set up to avoid conflict-of-interest situations. When DUN'S BUSINESS MONTH queried a cross-section of blind trust owners and trust managers, it found not only tales of financial sacrifices, but also of emotional drain, exasperation and petty annoyance. "There must be a better way," sighs former Securities and Exchange Commission Chairman Harold Williams. Others complain that the risk of financial loss, combined with the disclosure of his entire family's financial holdings, discourages many a qualified businessman from taking a Washington assignment. "The blind trust is part of an overall scheme that makes service in government at the top level such an expensive exercise that you simply lose a lot of good people," Blumenthal says. "They have made public service so difficult for people who have had diversified, successful business careers that we are going to end up with nothing but academics and neuters in government," Simon adds.

Blind trusts have been used for years on an *ad hoc* basis as a way to shield government officials from a possible conflict of interest. President Carter went further and made such devices a requirement for any political appointee whose assets and jobs put him in a potential conflict. But it wasn't until the Ethics in Government Act of 1978 that blind trusts received legislative sanction for any Presidential appointee who also requires Senate confirmation. Appointees are not required to set up blind trusts, but if they decide not to, they must abstain from

Blind trusts may help officials avoid conflicts of interest, but they exact a high financial and emotional price.

decisions that involve companies in which they have a financial stake (for details of the 1978 law, *see page 48*). The law establishes minimum requirements. Certain departments and agencies, such as Defense and the SEC, have stricter rules, to the point of requiring key officials to sell off certain holdings. So far, 22 of President Reagan's appointees have established blind trusts under the 1978 act *(for details, see page 45)*.

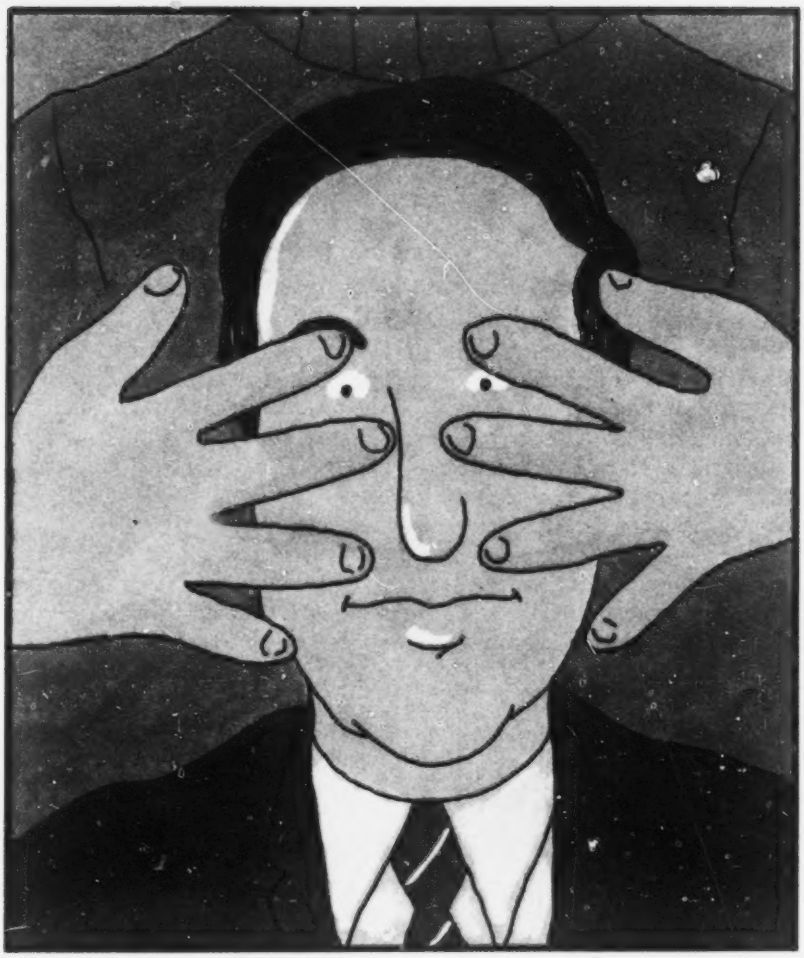
The risks of such a setup are obvious. Consider the executive who has left a high-paying job in business, who may have been compelled to sell his shares in a thriving business or put them in trust, who can no longer use his talents to improve his return on investment and who now has a relatively low-paying job with no guarantee of future employment. All his estate may be at risk, with a stranger managing it. Moreover, he most likely has to draw income from the trust to supplement his salary in order to maintain his standard of living. Few can live on the $60,000-or-so the posts typically pay. ("I had a wife, and two children in private universities," Williams recalls.) And, as experienced investors know, one of the most difficult challenges is to make gains on a portfolio that is constantly being drained by withdrawals.

Obviously, with such risks, some people lose. For example, Robert McKinney, former chairman of the Federal Home Loan Bank Board, says that he resigned in May 1979, after less than two years in office, largely because the value of his portfolio was diminishing rapidly. Under pressure from the Senate Banking Committee, McKinney had put his business—a diversified banking and manufacturing

Petrified trustees

company—as well as all his stock in a blind trust. The business did fine ("I found out later," McKinney reports), but the value of his portfolio fell 20% while the Dow Jones industrial average had dipped only 7%. The responsibility of managing McKinney's portfolio so petrified his trustees, he recalls them telling him later, that "they decided among themselves the best thing to do was nothing. They were enormously relieved when I came home and took things back."

"Trustees are afraid to make changes so they don't trade, buy or sell as much as you would have," agrees Chairman of the Council of Economic Advisers Murray Weidenbaum. He reports that his trust has declined noticeably during the year he has been in office, but "I don't know how painful the experience will be until it's over." He figures that he can't lose too much because he doesn't



have much to lose. But he wonders what the trustees are doing. "I have concluded that the trustees are buying Polish bonds, or maybe Rumanian ones," he jokes.

Blumenthal is also convinced that the trustee's unwillingness to make changes hurts his results. They keep what's put into the trust so that they won't have to explain why they sold something, he suspects. "People don't deal with your assets the way you would yourself, and that was reflected in the performance," he says. Blumenthal reports that in the fifteen months since he took his assets out of trust, "I have done infinitely better than while my trustee was acting for me."

The biggest financial and emotional price is paid by the executive who, in taking a government job, must sell shares in a business he built, reports attorney Nicholas Grace of the Boston firm of Ropes & Gray, who has fashioned trust agreements for Elliot Richardson, who held four Cabinet positions under President Nixon, and many others. Not only does the executive have to give up the possible appreciation of the stock while he is in office, but he probably incurs gargantuan capital gains tax liabilities as well. SEC Chairman John S. R. Shad, who had to sell his holdings in his former employer, E. F. Hutton, admits that people aren't necessarily sympathetic when he says, "I am in the process of incurring several million dollars in capital gains taxes for the privilege of serving down here." But he notes that the profit took more than eighteen years to accumulate.

Despite Shad's caution, an article in *The New York Times* questioned as a possible conflict of interest his vote on an SEC matter affecting Morgan Stanley & Co. The point at issue: Shad holds a $7.8 million installment note issued by an affiliate of Morgan Stanley (the employer of his trustee, Barton Biggs) in payment for Shad's shares in E. F. Hutton. Despite the fact that Shad had requested an opinion from the SEC's ethics counsel on the propriety of his voting on the issue (it was a general policy matter and not a particular case involving Morgan Stanley), a Congressional subcommittee announced that it was investigating his vote.

Even if he doesn't sustain any investment losses, Shad estimates that the costs of setting up and running his blind trusts amount to more than $1 million. But for most office holders, fees are just a minor annoyance. They are much more disturbed about turning their financial affairs over to a trustee, who now makes all the decisions about buying and selling. The only information the office holder gets is a quarterly report on changes in his net worth—with no explanation of the source of gains or losses.

"All the wealth I have"

That's scary. "It's a funny feeling, after you have painfully built up assets over the years, to suddenly have no control over them," says Weidenbaum. "Psychologically, this is a burden. I like to know what's going on," says Undersecretary of State James Buckley. "I try not to even think about it," adds Craig Nalen, head of the overseas Private Investment Corp. SEC Commissioner Bevis Longstreth agrees: "I worked a lifetime; it's all the wealth I have to provide for my family and turn over to my children, so I have closed my eyes and hope the trustee does something right with it."

When he started to set up his trust, Longstreth expected he would be able to give his trustee more guidance. He was shocked to discover that, once the trust was established, he couldn't talk to his adviser about trust matters on the phone, discuss his investment

President Reagan's Blind Trust—and 22 Others

Under the rules for blind trusts and financial disclosure spelled out in the Ethics in Government Law of 1978, each trust is open to public inspection at the Office of Government Ethics. Each file reveals the trustee and the items placed in trust. Each holding must be identified and placed in a certain range of value. The ranges start at 0-to-$5,000, and the top category is $250,000-and-up. In most cases, the officials have other significant assets, particularly real estate, that are not in the trust. Here are the highlights from the files for 23 Administration members.

OFFICIAL	TRUST		TRUSTEE
	AMOUNT	DESCRIPTION	
Ronald W. Reagan, President, former governor of California	$740,000	Two Bank of America certificates of deposit	Raymond J. Armstrong, chairman, Starwood Corp., investment advisers, New York
George H. W. Bush, Vice President, former C.I.A. Director, U.N. Ambassador, Republican Party Chairman, U.S. Representative	$883,417	Common stock—$565,150; government and municipal bonds—$250,000 face value, and cash equivalents	W. S. Farish & Co., private trust company, Houston
James A. Baker, White House Chief of Staff, former Houston law firm partner	$3,422,155*	More than $2 million in common stock, including $1.7 million in Texas Commerce Bancshares; municipal bonds—$400,000 face value; various tax shelter partnerships	L. E. Greenberg, partner, Deloitte Haskins & Sells, accountants, Houston
William E. Brock, U.S. Trade Representative, former Republican Party Chairman, U.S. Senator and Representative, Brock Candy Co. executive	$3,642,132	Common stock—$2.5 million, almost $800,000 in cash; significant amounts of non-marketable stocks and notes of Brock Candy Co. A trust in Mrs. Brock's name includes Texas Commerce Bancshares stock worth $1.5 million	Hunter D. Heggie, partner, Stophel, Caldwell & Heggie, law firm, Chattanooga, Tennessee
James L. Buckley, Under Secretary of State, former U.S. Senator, business executive and attorney	$622,718	Common stock—$362,743; government and municipal bonds—$180,330; plus cash	Hamilton S. Gregg, investment adviser, Canaan, Connecticut
Richard G. Darman, White House Deputy Chief of Staff, former government official, consultant and professor	$860,502	Stocks—$765,502; and bonds—$95,000 face value	Edward H. Auchincloss, partner, Auchincloss & Lawrence, investment advisers, New York
Christopher C. Demuth, Administrator, Office of Information and Regulatory Affairs, former professor and attorney	$138,249	Primarily common stock with some municipal bonds	Harris Trust and Savings Bank, Chicago
Roscoe L. Egger, Jr., Internal Revenue Commissioner, former accounting firm partner	$372,014	More than $200,000 cash; about $100,000 in common stocks, plus two call options	George M. Ferris, Jr., Ferris & Co. Inc., investment advisers, Washington, D.C.
James F. Goodrich, Under Secretary of the Navy, former business executive	$115,000*	Cash	Investors Bank and Trust Co., Boston
Alexander M. Haig, Secretary of State, former Army general and White House official	$928,507	Commercial paper—$895,000; the remainder in cash and common stocks	Hamilton S. Gregg, investment adviser, Canaan, Connecticut
Bevis Longstreth, Securities and Exchange Commission member, former New York law firm partner	$375,114	Stocks—$189,393; cash and notes—$179,721	John Johnston II, partner, Debvoise, Plimpton, Lyons & Gates, law firm, New York
John J. Louis, Jr., Ambassador to United Kingdom, former chairman of Combined Communications Corp. which was acquired by Gannett Co.	$7,491,000	Mostly common stocks, including more than $1 million in both Gannett Co. and S. C. Johnson & Son and more than $500,000 in Maynard Oil Co.; municipal bonds—at least $705,000; real estate partnerships and cash	Walter W. Bell, partner, Wilson & McIlvaine, law firm, Chicago
Craig A. Nalen, President, Overseas Private Investment Corp.; former business executive	$206,000*	Common stocks	Morison International, Inc., financial advisers, Minneapolis, Minnesota
Edward E. Noble, Chairman of Synthetic Fuels Corp.; former business executive	$1,568,500*	Oil and gas partnership interests	First National Bank and Trust Co. of Tulsa, Tulsa
Donald J. Quigg, Deputy Commissioner, Patents and Trademarks; former Phillips Petroleum Co. patent counsel	$380,550	Phillips Petroleum Co. stock	First National Bank Bartlesville, Bartlesville, Oklahoma
Donald T. Regan, Secretary of the Treasury, former chairman, Merrill Lynch & Co.	$9,115,318*	Merrill Lynch & Co. common stock worth almost $8 million; partnership interests in oil, gas and real estate projects valued at more than $650,000; municipal bonds—$500,000 face value	Bessemer Trust Co., Bank, Newark, New Jersey
Davis R. Robinson, State Department legal adviser, former Washington law firm partner	$241,069*	Stocks valued at $205,593, plus cash equivalents	Joseph H. Price, partner, Leva, Hawes, Symington, Martin & Oppenheimer, law firm, Washington, D.C.
John S. R. Shad, Chairman, Securities and Exchange Commission; former vice chairman, E. F. Hutton Group	$13,314,770	A $7,821,028 note from sale of E. F. Hutton stock; common stocks—$3.4 million; municipal bonds—$1.1 million face value; cash—$600,000; partnership interests—$270,000	Barton Biggs, Morgan Stanley & Co., securities firm; John D. Spears and Christopher Brown, Tweedy, Browne, Inc., investment advisers, New York
William F. Smith, Attorney General, former Los Angeles law firm partner	$1,110,194	Common stocks—$915,194; bonds—$195,000 face value	Ronald H. Oliver, president Starwood Corp., investment advisers, New York
Beryl W. Sprinkel, Under Secretary of the Treasury, former economist, Harris Trust and Savings Bank	$294,829	Common stocks—$135,434; cash—$126,021, plus municipal bonds	Harris Trust and Savings Bank, Chicago
Robert Strausz-Hupe, Ambassador to Turkey; former diplomat and professor	$340,000*	At least $280,000 in common stocks, plus municipal bonds and cash equivalents	Benjamin R. Neilson, partner, Ballard, Spahr, Andrews & Ingersoll, law firm, Provident National Bank, Philadelphia
John M. Walker, Assistant Secretary of the Treasury; former New York law firm partner	$1,058,346	Primarily common stock with some municipal bonds and cash	Theodore Wagner, partner, Carter, Ledyard & Millburn, law firm, New York
Murray L. Weidenbaum, Chairman, Council of Economic Advisers; former professor and government economist	$359,493	Corporate and municipal bonds and notes—$247,793; cash equivalents—$79,300; plus common stocks	St. Louis Union Trust Co., St. Louis

*These are minimum estimates for office holders who did not specify the amount in their trust accounts but instead indicated ranges, such as $5,000-to-$15,000, $100,000-to-$250,000. In such cases, the lower values in each range have been added to arrive at a minimum total value.

Do's and Don'ts of Trusts and Trustees

High-level appointees are not required to set up a blind trust. But if they do, they must conform to the rules set forth in the Ethics in Government Act of 1978. This Carter-inspired legislation provides for an Office of Government Ethics, which supervises blind trusts and financial disclosure for government officials who are appointed by the President and approved by the Senate. The OGE defines the acceptable trust forms, the trustees and the financial disclosure rules.

Congressmen may also elect to have a trust, which is filed with their financial disclosure forms in the House and the Senate. Senators Edward Kennedy, Howard Metzenbaum and Alan Cranston as well as Pennsylvania Congressman Allen E. Ertel, among others, have trusts on file. Under the law, trust forms must also include trusts of wives and children when conflicts may exist.

The law provides for two kinds of trusts. One, the qualified blind trust, holds unmarketable securities such as large blocks of stocks, unregistered shares or partnership shares. The other, the qualified diversified trust, holds only marketable securities; no single issue may exceed 20% of the market value of the portfolio and no industry or economic sector may exceed 30% of the portfolio. Only appointed government officials may have a qualified diversified trust.

A qualified blind trust offers limited protection against conflict-of-interest violations. To avoid prosecution under conflict-of-interest laws, the official must not vote on or participate in the discussion of any matter that concerns investments he has put in a qualified blind trust.

For instance, Treasury Secretary Donald Regan's 239,558 shares of Merrill Lynch are in a qualified trust, and he must avoid official actions dealing with Merrill Lynch. But the trustee can sell his shares; if their value in his portfolio falls below $1,000, he can so inform Regan, who is then free to act on matters concerning Merrill Lynch.

A trustee may tell the office holder what has been sold, but not what has been bought. Thus, Regan's trustee can reinvest the proceeds of a sale, and because the Treasury Secretary will not know the identity of the new investment, he is protected from conflicts in regard to it. "We call it 'gradual blindness,'" says director J. Jackson Walter of the OGE.

A qualified diversified trust provides for "instant" blindness. The law assumes that if a portfolio is diversified, it is unlikely that the government official can decide on any policy that will affect any of his individual holdings to such a degree that the overall value of the portofolio will be materially enhanced. "Wide diversification is considered tantamount to actual blindness," the regulations say.

Who can serve as a trustee and what dealings the trustees may have with the office holders are also strictly regulated. The OGE must approve the selection of the

philosophy, or give him direction even as general as suggesting that the prime rate might rise or fall or that he should buy more stocks than bonds.

Equally shocking to most officials is the loss of control over their taxes. The trustee fills out the tax form for the trust, and if the official has a qualified diversified trust (one in which the official knows nothing of its holdings), then the trustee also fills out his 1040. "For four years, I never saw or signed my own tax returns," recalls Williams.

Moreover, Williams was audited by the IRS, and he still didn't get to see his income tax returns. He supplied the information the IRS requested, and the trustee supplied his part of the information. J. Jackson Walter, director of the Office of Government Ethics, which supervises compliance with the law, explains that IRS communica-

trustee. The law establishes that trustees must be drawn from the ranks of lawyers, accountants, brokers, banks or investment advisers. It bars any former employee or current business associate of the official from acting as a trustee.

Even though the law says that the trustee must be "independent in reality and appearance," it does not exclude former law, accounting or brokerage partners, or an investment adviser who is already handling an executive's personal financial affairs. It does not bar personal friends, either. The law defines independence more as a matter of acting independently rather than as an independence of relationship. In effect, OGE regulations say that an official can turn over all his worldly goods to a friend, but he cannot tell him what to do with them.

Close relationships between trustees and officials undermine confidence in the law. Former Treasury Secretary W. Michael Blumenthal recalls, "I felt somewhat badly about 'blind trusts' some others had, with a friend as trustee, and I always wondered how blind that was." He thinks there is a substantial difference between having a giant bank as a trustee and having a former business partner or even private bank. With the latter arrangement, he notes, a trustee may also be a buddy and have dinner with the official once a month. "If it could ever be proven that they talk about the trust, that would be against the law," he observes. "But how are you going to police it?"

Communications between the office holder and the trustee on the subject of the trust are limited to letters, and a copy of each communication must go to the OGE. An officer holder can write his trustee only a limited description of his investment objectives, such as income or capital gains. He may also write his trustee asking for money from the trust. The trustee may send him only a quarterly statement, which reports simply the change in the trust's net worth since the last quarter. The official cannot learn from this report what the investment performance of individual items was or how much was invested in stocks or bonds.

An official may spend large sums on lawyers in setting up a trust, but he can avoid that expense. The OGE has a model trust agreement that any appointee can use. According to attorney Nicholas Grace of Boston's Ropes & Gray, the model is "a pretty good piece of work." However, Grace adds, "it doesn't suit everybody." He advises office holders with complicated family situations to get their own lawyers.

Two prime examples of complicated family situations are officials who contemplate divorcing their wives or whose wives may be the source of the family fortune. The wife's family may be very uncomfortable about having its personal business revealed in financial disclosure forms, and a lawyer can help protect some family secrets.

Grace also advises executives to consider having co-trustees—one a lawyer or personal adviser and the other an investment expert. The advantage of this is that the lawyer can evaluate the performance of the investment adviser and, should it be below par, recommend a change in advisers. —A.H.

tions go through the trustee to avoid the possibility that an IRS staffer might accidentally reveal information about a trust to an office holder.

For Williams, the audit underlined the importance of having a trustee he felt comfortable with. In choosing a trustee, the office holder is faced with two tough challenges: finding a person with whom he will have peace of mind and finding a person who is a good money manager. Both qualities are rarely found in one person. For many self-made businessmen, whose advisers never did anything without consulting them first, "turning over real control is the hardest sacrifice," according to attorney Nicholas Grace. "The executives beat everybody out to get where they are, and they believe they alone know how to do it."

Weighing the emotional price of putting one's estate into another's hands is impossible, but the financial disclosure requirements are more a petty problem of paperwork than a searching spotlight into a official's private fortune. The value of individual items in a portfolio has to be listed only by its range. The lowest range is up 0-to-$5,000 and the highest is more than $250,000. Arthur Louis, the Ambassador to the United Kingdom, has four trusts, each with more than $250,000 in Gannett stock, a total that could be $1 million or $10 million. Most of the investments are pretty dull, but in one entertaining item, Synfuels Corp. head Edward E. Noble lists two bags of silver bought in January 1980. The price then was $35.75 an ounce; the price today is $7.50.

Moreover, most office holders claim that the advantages and pleasures of serving outweigh the sacrifices. OPIC's Craig Nalen says: "In spite of the peripheral hassles, there's not a moment I have regretted." A former Carter official says: "I'm glad I did it. There have been financial benefits, jobs I got that I don't think I would have gotten otherwise."

And then it pays to have a certain macho attitude even about the sacrifices. As former Commerce Secretary Philip Klutznick says: "An intrepid businessman can earn a Cabinet-level salary in a month. If you're not satisfied that the opportunity is worth paying the price, you ought not to go into government." A sentiment former Treasury Secretary Simon seconds heartily: "In the crass sense, I can always come back and work and make money." —ARLENE HERSHMAN WITH MARILYN WILSON

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

Investment	(3/31/82) Recent Price	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$14.23/share	$ 9,931	$ 8,693
per cent change		−0.7%	−13.1%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$86.59	$10,117	$ 9,261
ACCUMULATED INCOME		$ 114	$ 1,047
TOTAL		$10,231	$10,308
per cent change		+2.3%	+3.1%
Money Market Fund	13.52%	$10,112	$11,268
per cent change		+1.1%	+12.7%
Gold (Krugerrands)	$344/oz.	$ 9,075	$ 6,371
per cent change		−9.3%	−36.3%
Existing House	$70,400	$72,700	$66,500
per cent change		−3.2%	+5.9%
New House	$93,200	$ 97,300	$90,900
per cent change		−4.2%	+2.5%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

his recent clients, he notes, were a senior vice president at a major office-supply company, an administrative assistant at a big conglomerate and an MBA graduate from an Ivy League school. "One of the biggest selling points of the Electronic Resume is its flexibility," he says.

Kraushar works with his clients on their entire job-hunting strategy. He first critiques and polishes the written resumé, and then tapes the client in a simulated job interview, assessing the effectiveness of the client's answers and giving pointers on the use of body language, voice and visual aids.

He then helps the client isolate his (or her) strong points and suggests ways they can best be communicated in a video presentation. For example, he suggests that an architect display his blueprints or a designer show a new ad campaign or product package he has created. Or an engineer could have his resumé taped in a plant demonstrating, say, the energy-saving equipment he recently designed.

The client then writes a video presentation incorporating the ideas discussed, which Kraushar edits for production values, conciseness and effectiveness. After a working script is agreed on, the resumé is taped.

Kraushar charges $100 an hour for this service and says the average resumé takes three-to-six hours to produce. —M.S.L.

BizQuiz Answers

& So On...
Babcock & Wilcox; Black & Decker; Castle & Cooke; Gulf & Western; Johnson & Johnson; Lehn & Fink; Libby, McNeil & Libby; Procter & Gamble; Rohm & Haas; Sperry & Hutchinson.

Food for Thought
Arby's/Royal Crown Cos.; Roy Rogers/Marriott; Kentucky Fried Chicken/Heublein; Burger King/Pillsbury; Pizza Hut/PepsiCo.

Leading Partners
Customers (in billions): Canada ($39.6); Japan ($21.8); Mexico ($17.8) United Kingdom ($12.4); West Germany ($10.3); Netherlands ($8.6); France ($7.3); Saudi Arabia ($7.3); Belgium ($5.8); Italy ($5.4).
Suppliers (in billions): Canada ($46.4); Japan ($37.6); Saudi Arabia ($14.4); Mexico ($13.7); United Kingdom ($12.8); West Germany ($11.4); Nigeria ($9.2); Taiwan ($8); France ($5.7); Venezuela ($5.6).

Top Spirits
Bacardi; Smirnoff; Seagram's 7 Crown; Seagram's V.O.; Jim Beam; Jack Daniel's Black; Canadian Club; Seagram's Gin; Popov; Canadian Mist.

Sloganeering
"Covers Dixie like the dew"/*Atlanta Journal;* "Monarch of the dailies"/*San Francisco Examiner;* "First the blade, then the ear, then the full grain in the ear"/*Christian Science Monitor;* "The paper with the pictures"/*Des Moines Tribune;* "The voice of the West"/*San Francisco Chronicle.*

TAP THE ENERGY OF THE CONSOLIDATED STATES OF AMERICA.

The energy you need to power your company into the next century is here today.

An abundance of natural gas. The largest natural gas storage facility in America. Energy resources of every kind to fuel your company's future.

There's economic energy, too. You can see it in the great markets. In the expanding industry. In the way our workers work.

Tap the energy of the most vital areas of New York, Ohio, Pennsylvania, and West Virginia. Write: R.R. Ernest, Vice President, Consolidated Natural Gas Company, Four Gateway Center, Pittsburgh, Pa. 15222. Or call (412) 227-1131.

CONSOLIDATED NATURAL GAS COMPANY

The MGM Cliff-Hanger

June 1982 $2.25

C8650-5

The Crash In Collectibles:

How Bad Is It?

Unemployment's Uneven Pain

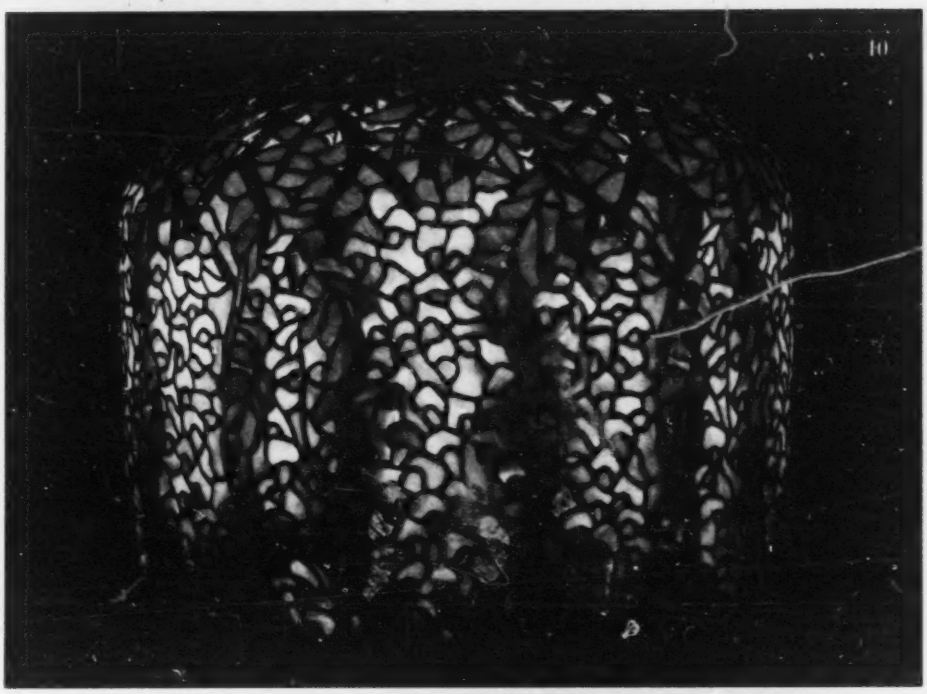
Tension at the Economic Summit

Also Featuring

A Monthly Business Recap

3006 IS 1938299 1 W98
EDWARD KIANKA ACQ EDT
CONGRESSIONAL INF SERV INC
7101 WISCONSIN AVENUE
WASHINGTON DC 20014

Feature Departments



ECONOMY

Unemployment's Uneven Pain 35

The job crunch is severe in certain industries. But the changing economy has made the national anguish strangely muted.

- **Walter E. Hoadley: The thorns in U.S.-Japan relations**

MONEY & MARKETS

The Crash In Collectibles 40

(Cover Story)

The boom in those "alternative" investments, from photos to furniture, is bombing out.

MANAGEMENT

Battling Employee Alcoholism 48

With more than 5,000 programs in force, companies are achieving good success in getting sick employees back to work.

DUN'S BUSINESS MONTH

June 1982, Vol. 119, No. 6

INTERNATIONAL

Tension at the Economic Summit 55
Protectionist pressures promise to make the Versailles conference a confrontation between the U.S. and Europe.

- **West Germany: End of 'The Miracle'**

MARKETING

Philip Morris' Savvy Sales Tool 73
Its Merit traveling public-opinion poll is generating good press while bolstering the brand image.

INDUSTRIES

After Jeans, What? 76
With the boom abating, jeansmakers are putting their much-ballyhooed names on a welter of other merchandise.

- **Commercial Condomania Moves Downtown**

COMPANIES

MGM's Race Against Time 87
Socked by soaring debt and slumping profits, the studio is trying to find a happy ending to its cliff-hanging scenario.

- **Fidelity's New Game Plan**

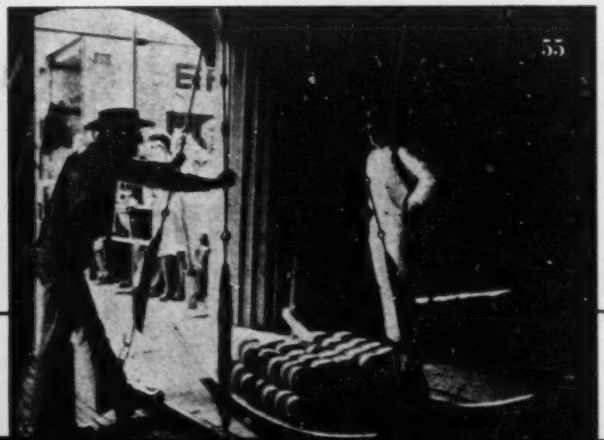
Letters 8
Management ills

The Managers 112
A gallery of the month's newsmaking executives

Personal Finance 117
- *Private vaults for valuables*
- *Cyclical stock strategy*
- *Commodity funds perform well*

Surveys & Studies 123
Cutting payroll costs

BizQuiz 125
The biggest stocks



The Business Month

ECONOMY

Big business bearish 13
Free-market Frenchman
Disinflation blues

WASHINGTON

Budget battle 14
Sugar sweetener

LABOR

Modest gains 15

INTERNATIONAL

Soviet slowdown 15
Japanese slump
European Journal
Indian turnabout
Savoy stomp

MONEY & MARKETS

Moody's modifications 18
Supreme Court ruling
AT&T's shelf sale
National market test
Stock index futures
S&Ls plan to sell stock

MANAGEMENT

Texaco pension fight 24
Executive kidnappings
Mobasco's 'golden chutes'
Penn Central's proxy tab
Cigna's sorry debut

COMPANIES

Braniff bankrupt 26
Harvester next?
New Valium flap

INDUSTRIES

Plunging profits 29
Semiconductor upturn
Synfuels' bleak outlook
VW cuts prices

CITIES & STATES

San Diego hit hard 30
Los Angeles' broker suit

MARKETING

New computers 32

Social Security increases—to boost business, increase profits and reduce unemployment in the third quarter.

Consumers—encouraged by car and gasoline prices that have declined in real terms—will start buying cars again, he says. Moreover, the auto industry has shrunk its plant and labor costs, so he expects a much higher level of profitability to result from any given level of sales. Sanders likes both General Motors and Ford Motor. "We even think Chrysler will do better," he adds. Earnings for General Motors and Ford should range from $7 to $10 a share in 1983 (versus $1.07 for GM and a deficit of $8.81 for Ford in 1981), he estimates, and domestic industry sales will climb to 12 million cars and 4 million trucks in 1985 and 1986. By then, he expects these two companies to be earning $15-to-$20 a share.

The economic rebound will also boost the currently depressed housing industry, Sanders maintains. Prices of these stocks reflect the consensus forecast that there is no hope for housing, he says, but by late 1983 the industry will have reduced overhead to the point that a moderate recovery will produce "surprising profits."

Sanders thinks the way to play the housing recovery will be in forest products companies, such as Georgia-Pacific and Champion International; cement companies, such as Kaiser Cement and Lone Star; and homebuilders, particularly Ryan Homes. The forest products companies are overleveraged and have been unable to expand, he says, which will keep capacity tight, producing a higher rate of utilization and more of an earnings bang when sales pick up. He likes Georgia Pacific and Champion International because they are currently selling at about two times the $7 a share that Bernstein's research staff projects they will earn in three or four years.

Similarly, the aluminum, steel and chemicals companies have suffered along with the industries they supply, and their earnings should be propelled upward in a recovery. Sanders argues that investors can buy a group and not worry about the relative performance of individual companies because economic forces will raise all boats. As he sees it, capital spending and expansion in these industries have been restrained by the high cost of money, and profits have been dampened by world recession and the strong dollar, which has made them uncompetitive in world markets. Thus, in an economic upswing, more business and less overhead will boost profits above Street expectations.

Among the steel companies, Sanders particularly likes Inland Steel. Its heavy commitment in flat rolled steel will benefit from an upswing in consumer durables and autos. In addition, he expects Inland to be a prime beneficiary of GM's consolidation of suppliers: "Inland will win out because it's a low-cost, high-quality producer."

In the aluminum group, Sanders likes Alcoa, Alcan and Kaiser. And in chemicals, he believes Union Carbide will profit from having eliminated many operations that have slowed its profit performance in past recoveries. Without these liabilities, he says, the company will move up much faster and more strongly. —A. H.

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

Investment	(4/30/82) Recent Price	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$14.62/share	$10,415	$ 9,255
per cent change		+4.1%	−7.4%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$88.62	$10,234	$10,275
ACCUMULATED INCOME		$ 113	$ 1,135
TOTAL		$10,347	$11,410
per cent change		+3.5%	+14.1%
Money Market Fund	13.71%	$10,114	$11,460
per cent change		+1.1%	+14.6%
Gold (Krugerrands)	$361/oz.	$10,505	$ 7,473
per cent change		+5.0%	−25.3%
Existing House	$69,100	$71,100	$62,200
per cent change		−2.8%	+11.1%
New House	$90,700	$ 90,000	$88,500
per cent change		+6.3%	+8.1%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

Commodity Funds: Surprisingly Good Performers

Despite dull and depressed commodities markets, the publicly offered commodity funds have turned in more than a respectable performance so far this year. For the first three months, the 39 funds monitored by Norwood Securities gained an average of about 10%. Ten of the funds grew 15% or more (*table, page 121*). And in March, 36 of the 39 funds were gainers, a performance that Norwood's Jay Klopfenstein calls "unprecedented." By comparison, the Standard & Poor's index of 500 industrials was down 7.8% for the first quarter.

Of course, observers warn that